



# NORTH CAROLINA GENERAL ASSEMBLY

Session 2019

## Legislative Retirement Note

**Short Title:** Educators' Pay Increases/Retiree Supplements.  
**Bill Number:** House Bill 426 (Third Edition)  
**Sponsor(s):**

### SUMMARY TABLE

#### ACTUARIAL IMPACT OF H.B. 426, V. 3 (\$ in thousands)

	<u>FY 2019-20</u>	<u>FY 2020-21</u>	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>
<b>State Impact</b>					
General Fund	17,363	17,363	-	-	-
Highway Fund	531	531	-	-	-
Other/Receipts	7,405	7,405	-	-	-
<b>TOTAL STATE EXPENDITURES</b>	<b>25,299</b>	<b>25,299</b>	-	-	-

### ACTUARIAL IMPACT SUMMARY

Section 4.2 has a potential actuarial impact.

Systems Affected: Teachers' and State Employees' Retirement System (TSERS), Consolidated Judicial Retirement System (CJRS), Legislative Retirement System (LRS)

Section 4.2 grants a one-time cost-of-living supplement of one-half of one percent (0.5%) of the annual benefit to retirees in TSERS, CJRS, and LRS who were retired as of September 1, 2019, paid in a lump sum on or before October 31, 2019. The section also grants an additional one-time cost-of-living supplement of one-half of one percent (0.5%) of the annual benefit to retirees in TSERS, CJRS, and LRS who were retired as of September 1, 2020, paid in a lump sum on or before October 31, 2020.

Cavanaugh Macdonald, the actuary for the Retirement System, and Hartman & Associates, the actuary for the General Assembly, estimate that this section will have the following nonrecurring costs in both FY 2019-20 and FY 2020-21:

<u>System</u>	<u>Cavanaugh Macdonald</u>	<u>Hartman &amp; Associates</u>
TSERS	0.155% of pay	0.165% of pay
CJRS	0.305% of pay	0.310% of pay
LRS	0.330% of pay	0.335% of pay

This section will not increase the unfunded liability of TSERS, CJRS, or LRS beyond FY 2020-21 because the additional contributions during the fiscal year are estimated to offset the additional benefits paid out. The bill appropriates funds and sets contribution rates sufficient to cover the increased cost of this section.

## ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2017 actuarial valuations. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2017 unless otherwise noted, M = millions)			
	TSERS	CJRS	LRS
Active Members			
Count	304,554	562	170
General Fund Compensation	\$11,046M	\$76M	\$4M
Valuation Compensation (Total)	\$15,059M	\$76M	\$4M
Average Age	45	55	60
Average Service	10.8	13.5	6.3
Inactive Members			
Count	160,087	44	95
Retired Members			
Count	215,008	682	295
Annual Benefits	\$4,521M	\$43M	\$2M
Average Age	71	73	77
New Retirees During 2018	11,200	30	2

Financial Statistics (as of 12/31/2017 unless otherwise noted, M = millions)			
	TSERS	CJRS	LRS
Accrued Liability (AL)	\$79,209M	\$682M	\$30M
Actuarial Value of Assets (AVA)	\$69,568M	\$587M	\$28M
Market Value of Assets (MVA)	\$70,608M	\$596M	\$29M
Unfunded Accrued Liability (AL - AVA)	\$9,641M	\$95M	\$2M
Funded Status (AVA / AL)	88%	87%	93%
Required Employer Contribution for FY 2019-20 (as % of pay)	12.97%	33.60%	26.46%
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 8.10%	3.50% - 5.50%	5.50%
Assumed Rate of Investment Return: 7.00%			
Cost Method: Entry Age Normal			
Amortization: 12 year, closed, flat dollar			
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015			

Benefit Provisions			
	<u>TSERS</u>	<u>CIRS</u>	<u>LRS</u>
Formula	1.82% x Service x 4 Year Avg Pay	3.02% to 4.02% x Service x Final Pay	4.02% x Service x Highest Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5	50/24; 65/5	65/5
Employee contribution (as % of pay)	6%	6%	7%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

### **TECHNICAL CONSIDERATIONS**

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N/A.

### **DATA SOURCES**

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Cavanaugh Macdonald Consulting, LLC, "One-Time Pension Supplement for State, Local, Judicial and Legislative Retirement Systems", March 8, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "1% Non-Recurring Supplement for Retirees in the TSERS, LGERS, CJRS, and LRS", April 22, 2019, original of which is on file in the General Assembly's Fiscal Research Division.

### **LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS**

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This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

### **CONTACT INFORMATION**

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Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

### **ESTIMATE PREPARED BY**

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**ESTIMATE APPROVED BY**

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**Signed copy located in the NCGA Principal Clerk's Offices**